S. HRG. 100-675

# NOMINATION OF WENDY L. GRAMM

## HEARING

BEFORE THE

## COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

THE NOMINATION OF WENDY L. GRAMM, OF TEXAS, TO BE CHAIRMAN OF THE COMMODITY FUTURES TRADING COMMISSION

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FEBRUARY 3, 1988

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# NOMINATION OF WENDY L. GRAMM, OF TEXAS, TO BE CHAIRMAN OF THE COMMODITY FUTURES TRADING COMMISSION

WEDNESDAY, FEBRUARY 3, 1988

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
*Washington, DC.*

The committee met, pursuant to notice, at 9 a.m., in room SR-332, Russell Senate Office Building, Hon. Patrick J. Leahy (chairman of the committee) presiding.

Present or submitting a statement: Senators Leahy, Melcher, Heflin, Harkin, Conrad, Daschle, Lugar, Cochran, Boschwitz, McConnell, and Bond.

## STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. The committee will come to order.

I welcome Dr. Gramm and my distinguished colleagues, Senator Inouye and Senator Bentsen.

We are meeting today to consider the nomination of Wendy L. Gramm as Chairman of the Commodity Futures Trading Commission.

This hearing occurs at a most important time—with decisions to be made by the CFTC which will affect not only all of our domestic financial markets, but likely the international markets as well. I cannot overemphasize my strong concerns regarding the responsibility this would, of course, place on you as Chairman, as I have discussed with you prior to this hearing.

Your varied public service experience is appreciated. However, I have serious concerns regarding your lack of experience in either the financial or commodities markets, especially at such a crucial time. I know a number of the questions will address themselves to that issue.

As you well know, there have been numerous studies and reports analyzing the markets' decline in October of last year. The most recent being the 1,000 page report released by the Securities and Exchange Commission yesterday, which I was unable to finish reading last night, but it did help me to go sleep. [Laughter.]

I didn't mean that quite as badly as it sounded. It is a long, carefully written one. It is not a page turner.

The reports which I have finished, however, recommend various regulatory changes. These recommendations range from the Brady

Report, chaired by our distinguished former colleague, Senator Brady, which would give additional authority to the Federal Reserve Board, to the General Accounting Office's preliminary report, which recommends immediate contingency planning by Federal regulators to help avert or dampen extreme market breaks.

Taking into consideration the various reports which have been released, as well as the testimony provided at numerous congressional hearings, I am considering a legislative response to address the concerns that have been raised.

In light of all the activities surrounding the market decline, and the many recommendations which have been made, I would like to hear your views regarding a solution—or what course of action you might take in addressing these regulatory issues.

At this point in the record, Senator McConnell's prepared statement will be included in the record without objection.

[The prepared statement of Senator Leahy and Senator McConnell follows:]

**OPENING REMARKS OF SENATOR PATRICK LEAHY
ON THE NOMINATION OF WENDY L. GRAMM
AS CHAIRMAN OF THE COMMODITY FUTURES TRADING
COMMISSION**

**WEDNESDAY, FEBRUARY 3, 1988**

The Committee meets today to consider the nomination of of Wendy L. Gramm as Chairman of the Commodity Futures Trading Commission.

This hearing occurs at a most important time -- with decisions to be made by the CFTC which will affect not only all of our domestic financial markets, but likely the international markets as well. I cannot over-emphasize my strong concerns regarding the responsibility this would place on you as Chairman.

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In light of all the activity surrounding the market decline, and the many recommendations which have been made, I would like to hear your views regarding a solution -- or what course of action you might take in addressing these regulatory issues.

**STATEMENT OF SENATOR MITCH McCONNELL**

**HEARING TO CONSIDER DR. WENDY GRAMM TO BE CHAIRPERSON OF THE COMMODITY FUTURES TRADING COMMISSION**

**FEBRUARY 3, 1988**

Mr. Chairman:

I commend the Distinguished Chairman for calling this hearing to review the nomination of Dr. Wendy Lee Gramm to be Chairperson of the Commodity Futures Trading Commission, and I welcome this opportunity to hear Dr. Gramm's testimony. She is an accomplished economist with a notable record of service to this administration. The importance of the position for which Dr. Gramm has been nominated, in addition to her considerable knowledge and experience in academia as well as here in Washington, lend weight to her comments, and I look forward to learning of her thoughts and perspectives on the challenges confronting the commodity futures industry.

I think we are all aware that the serious instability in the various stock exchanges has carried over into the commodity futures markets. I certainly commend the Commission for its attention to this issue. Nonetheless, one of the main challenges in my mind facing the new Chairperson will be taking whatever appropriate measures necessary to continue to provide stability to the commodity futures markets, reaffirming confidence by investors as well as farmers in these important financial markets.

I am a strong believer that in today's agricultural environment, the challenge to the American farmer is as much one of producing as it is one of marketing. The progressive farm manager must be a creative and aggressive marketer if he wishes to stay in business. Futures and options contracts are important tools, and the successful farmer, as agriculture becomes more and more competitive, will come to rely on these instruments as he manages his operation. To this end, I think it is imperative for CFTC to continue, as the regulator of the futures trading industry, to be responsive to agriculture's changing needs.

These are just a couple of my concerns, and as I stated earlier, I look forward to Dr. Gramm's testimony, and to learning of her views on the direction and regulatory needs of the commodity futures trading industry, as well as her approach to confronting the many challenges the CFTC faces.

I thank the Chair.

The CHAIRMAN. Before we hear from you, Dr. Gramm, you are accompanied by two of the most respected Members of the U.S. Senate, and I think perhaps I best yield first to them. Not only is that the protocol but they are both far senior to me, and I know the seniority system around here. [Laughter.]

Senator Inouye and then Senator Bentsen.

## STATEMENT OF HON. DANIEL K. INOUYE, A U.S. SENATOR FROM HAWAII

Senator INOUYE. Mr. Chairman, it is my privilege to present to you and to my distinguished colleagues on this committee, Dr. Wendy Gramm, the President's nominee for Chairperson of the Commodity Futures Trading Commission. I am both proud and honored to appear with this very excellent candidate this morning.

Dr. Gramm currently serves as Administrator of the Office of Information and Regulatory Affairs at the White House Office of Management and Budget. In this capacity, she reviews the administration's regulatory program and exercises oversight authority over all federally promulgated regulations. She is also charged with supervising paperwork reduction efforts through coordination of Federal information and statistical policy.

Dr. Gramm holds a Bachelor of Arts degree from Wellesley College and a Doctorate degree from Northwestern University, both in economics. She joined the Texas A&M University faculty as a professor of economics, and later became the director of undergraduate programs for the Texas A&M economics department. Dr. Gramm also worked for the Federal Trade Commission, serving as assistant director, and then director of its Bureau of Economics.

I believe her background, Mr. Chairman, speaks for itself. One facet of her résumé that I am very proud to bring to the committee's attention is her Hawaii connection. Wendy Gramm is the granddaughter of Korean immigrants who came to Hawaii at the turn of the century to work in our sugar fields. Her family settled in the plantation town of Waialua on the Island of Oahu. It was in this small town of Waialua that Wendy Gramm was born. From her humble, yet proud beginnings, Wendy Gramm has distinguished herself as a scholar and skilled administrator, possessing integrity and a commitment to excellence. If confirmed, I am certain she will be a good candidate, but just as important, she will be the first Asian woman to be appointed to a high executive post.

The people of Hawaii are very proud of her accomplishments. However, Hawaii lost Wendy Gramm to the State of Texas. A gentleman by the name of Phil Gramm came along, swept her off her feet, and took her from Hawaii. Nonetheless, Hawaii's residents send Wendy Gramm their aloha and best wishes for an expeditious hearing and hopefully a confirmation.

Dr. Gramm has displayed extraordinary administrative and intellectual capabilities. I am confident that she will uphold the Commission's responsibility of ensuring that the futures trading system operates in a fair and orderly manner. Dr. Gramm's academic background in economics, and her practical experience and knowledge of the Federal regulatory process, will aid her in protecting

both the rights of the customers and the financial integrity of the marketplace.

Mr. Chairman, and distinguished members of the committee, it is my privilege to present to you Dr. Wendy Gramm. I urge this committee, most respectfully, to carefully examine her record and accomplishments.

Needless to say, Dr. Gramm has my full support, and I recommend that she receive the committee's full and fair consideration. I thank you, sir.

The CHAIRMAN. Thank you very much, Senator Inouye. I understand you may have to leave at some point.

Senator INOUYE. We are considering the agriculture budget.

The CHAIRMAN. I certainly want you to be there with serious and careful consideration. [Laughter.]

I will yield to the distinguished senior Senator from Texas, and I would note, Dr. Gramm, that you have the support of one of the two Senators from Texas, but I would take, as we used to say in the courtroom, judicial notice of the fact that I believe you have the support of the other Senator from Texas also.

Dr. GRAMM. I believe I do also.

The CHAIRMAN. We will note it for the record that indeed you do.

Senator Bentsen.

## STATEMENT OF HON. LLOYD BENTSEN, A U.S. SENATOR FROM TEXAS

Senator BENTSEN. Thank you very much, Mr. Chairman. I am just delighted to be here. We have listened to Senator Inouye go over Dr. Gramm's résumé, and one of the interesting things you see about it, if you study it as I did, is that it's a continuing progression of promotions, increasing responsibilities as she has gone along.

I took a particular interest in what she has done on paperwork because I was the original cosponsor of that piece of legislation back in 1980, and I am pleased to have seen the reduction in the amount of paperwork taking place in this country of ours, an estimated some 600 million man-hours worth. The reduction in paperwork that we've seen is remarkable progress.

As you look at people in public office and people filling responsibilities for our government, it's so easy to criticize and so often it happens. But as I've looked at her career, I've heard not one word of criticism. I've heard nothing but praise about her dedication, her ability, and what she's been able to accomplish.

That's what we seek in a public servant. She has had a distinguished academic career. She did a great job as a professor at Texas A&M University, which is an outstanding university. And now she's taking on a new role as Chairman of the Commodity Futures Trading Commission at a difficult time. The whole system is being questioned because of Black Monday and the spillovers that we see in both commodity and stock exchanges.

But I am convinced that she's going to do the same kind of objective, dedicated, serious studying of what's taken place there that she has in her previous jobs. She will be trying to find some solutions in a field that is not easy to understand, but she has the abili-

ty of a student to really concentrate her attention in seeking out those solutions.

She also has an evenhanded method of administration, and she knows how to get along with people and get their loyal support. So it's without any equivocation at all that I am just delighted to be here and have a chance to recommend this kind of a dedicated public servant for high responsibility.

The CHAIRMAN. Thank you very much.

As I said before, Dr. Gramm, you are accompanied by two of the most respected Members of the Senate, and their thoughts weigh heavily with this committee.

I also understand that, Senator Bentsen, you too have all kinds of conflicts on your schedule, and I appreciate very much having you here.

Dr. Gramm, do you solemnly swear that the testimony you are about to give will be the truth, the whole truth and nothing but the truth so help you God?

Dr. GRAMM. Yes.

The CHAIRMAN. I turn to you now for any opening statement you might have.

## TESTIMONY OF WENDY L. GRAMM, OF TEXAS, TO BE CHAIRMAN OF THE COMMODITY FUTURES TRADING COMMISSION

Dr. GRAMM. I would like to make a few statements.

First of all, I am indeed honored to be here as the President's nominee for Chairman of the Commodity Futures Trading Commission. It's a very important agency, I believe in it, and I am committed to its mission of ensuring the financial integrity of markets and protecting the consumers.

As a result of the extraordinary events in the markets this past October, much attention has been focused on futures markets, certain instruments, trading strategies, and the CFTC.

In analyzing the events of October, I am struck by the fact that futures markets worked remarkably well during this period of unprecedented volume and price volatility. The regulatory structure developed under the Commodities Exchange Act and under this committee's oversight had results, and, I believe, positive results.

No futures commission merchants failed. About $2.5 billion in margins were collected on October 19, helping to ensure the financial integrity of the markets. No clearing firm failed. Even in the active market for the S&P 500 futures, a majority of the customers' orders were executed within 1 minute of the orders being placed on the floor of the exchange.

That is not to say that no improvements can be made. Any market stress as great as the events surrounding the October 19 break will uncover areas where regulatory systems might be improved.

Indeed the exchanges, the other self-regulatory organizations, and the CFTC are already working on developing improvements, and as you have noted, we have received a number of major studies with even more suggestions and recommendations.

The challenge is to improve the ability of markets to perform well in the event such a stress should occur again in the future,

but also to accomplish this without having unintended, undesirable side-effects. Markets, at this point, need some stability and predictability.

I believe my background has prepared me to meet these challenges. As an economist, I have studied markets, including financial markets, for some 17 years. I have conducted research on specific commodity markets, including oil and metals. I have analyzed regulations, not only in my role as overseer of Federal regulations at OMB, but also as an academic and as Director of the Bureau of Economics at the Federal Trade Commission.

I have worked in an independent regulatory agency enforcing consumer protection and antitrust law. Even my experience in information policy as a manager of information resources for the Federal Government at OMB will be helpful, since many of the issues raised these past few weeks are information issues.

If confirmed, I look forward to working with you to ensure that futures markets work effectively and efficiently, free of manipulation and abuse. It is important that these markets continue to serve the valuable role of price discovery and risk transference. These are important functions not only for the managers of large portfolios but also for the farmer seeking to hedge his or her risk.

If confirmed, I pledge that I and the CFTC will be accessible to this committee and to you individually to answer your questions and hear all of your views. I would be happy to start right now by answering questions that I know you have.

The CHAIRMAN. Thank you very much, Dr. Gramm. I do have questions.

Do any other members have opening statements?

## STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Senator BOND. Thank you very much, Mr. Chairman. Certainly it is a real pleasure to see Dr. Gramm come before this committee. We cannot improve upon the fine comments already made by our distinguished senior colleagues, and Dr. Gramm's record of achievements speaks for itself. I am very pleased to join in the supportive statements of Dr. Gramm.

I might have to say that given the recent turbulence and the difficulties in the market, there is some question about why anyone would want to take this job. I raised that same question with Alan Greenspan right after he had taken the Federal Reserve post and found that the great crisis rolled around him.

While I question the motives, Dr. Gramm, I am delighted to see that you are willing to accept this position.

Mr. Chairman, I think that we have some very, very important work to do with respect to the CFTC. This has been a time when the CFTC has been in the news perhaps more than any time that I can remember, and it will be very helpful and informative to us to have Dr. Gramm's views on analysis of the issues and any possible recommendations that she might have.

While I realize that regulatory actions regarding various stock markets are beyond the scope of this committee, I think it's important that we address here the relationships or the correlation, not

only of the stock market and the futures market, but between the CFTC, the SEC, the Federal Reserve, and the Treasury.

For example, the CFTC as I understand it, has authority over stock index futures. Yet with the ratification of the Shad-Johnson Accord in 1982, the SEC has jurisdiction over stock index options.

From my perspective, I am supportive of efforts to improve the interaction among regulatory agencies and would welcome efforts to see established some type of coordinating board or coordinating mechanism consisting of the Chairmen of perhaps the CFTC, SEC, Federal Reserve, and the Secretary of the Treasury.

With respect to the agricultural side of the CFTC, I have to tell you there is still a great skepticism and concern among farmers in Missouri about the functioning of the markets. We can know theoretically that the futures markets provide a vital role for agriculture, but there is not a month that goes past, not a visit that I make to the agricultural sector of our State, where people do not raise some questions about the fairness and the service that the futures markets provides to agriculture.

So, Dr. Gramm, I think you still have a significant challenge there, and we look forward to working with you to solve that problem.

Finally, Mr. Chairman, I might say that yesterday in the Banking Committee when we were discussing the problems of October 19, Dr. Gramm's husband used, as is his want, an outrageous analogy of the goose that laid the golden egg and suggested that the Banking Committee not carve up the goose when it might have been the problems of the environment that caused the problem.

When he had finished, another one of our colleagues on the committee said that kind of discussion ought better be conducted in the Agriculture Committee, and I am delighted that we are here today to be able to discuss it in the Agriculture Committee, and I join in welcoming Dr. Gramm.

Thank you.

The CHAIRMAN. Senator Melcher.

## STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator MELCHER. Dr. Gramm, I think there may be a responsibility on the part of this committee to determine just how independently you make your own judgments from your husband's judgments.

The position that you've been nominated to is one of being able to sort out the facts and necessary constraints that the Commission may have to impose on futures trading.

We can't separate that from its effect on the stock market. They are intertwined, and the solutions of operating the Commission as a regulatory agency to protect the public are probably at its most serious point since there's been trading on any futures markets.

I am going to listen with some great interest and feel that we're going to have to make some responsible judgments in this committee on what we expect out of the Commission. I won't be able to be here at all times during this hearing because of other committee meetings, but I will read the record very closely, and I am very

much interested in what you view as your responsibility as a member of the Commission. Thank you.

The CHAIRMAN. Thank you, Senator Melcher.

Senator Cochran.

## STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. I also want to welcome Dr. Gramm to the committee this morning, and to say that I have had the pleasure of seeing her in action at the Office of Management and Budget and have had the pleasure of getting to know her personally during the last few years.

I may say, as a result of that experience, I think she is an excellent choice to be Chairman of the Commodity Futures Trading Commission. I think she's eminently well qualified. Her educational background and her experience, I think, equip her quite uniquely at this very important point in the life of the Commission to serve as its Chairman.

She's a Ph.D. economist. She has had experience in the regulatory area as head of the agency task force on regulatory matters, and I think that we're quite fortunate to have the benefit of her insight and her experience at this time to lead this Commission.

So I am biased as we begin the hearing in her favor, and I want the committee to know that. It's also obvious that this is one of the most timely hearings that I've ever attended in the U.S. Senate.

I don't know of any subject that has been discussed more thoroughly in the press and in the Congress by committees that have jurisdiction over the Securities and Exchange Commission, the Commodity Futures Trading Commission, other regulatory agencies or the Federal Reserve Board, about the function of the markets and their regulators than the subject of the futures market and the stock market.

The Banking Committee, just yesterday, had hearings and heard testimony from Alan Greenspan, Nicholas Brady and others about the Brady Commission report. The House committee has also been holding hearings. I noticed that one subcommittee chairman suggested that the answer to all the problems was to consolidate the regulatory agencies under the jurisdiction of his subcommittee.

The CHAIRMAN. I wonder who that was?

Senator COCHRAN. Something about telecommunications and finance worked into the title of that subcommittee.

But we're going to hear a lot of suggestions about ways that we can address the problem to try to help satisfy the concerns that exist now about whether the markets are too volatile, whether the swings up and down are a disservice, or whether they are grounds for alarm and what the regulators ought to do about them, if anything; how much margin requirements ought to be demanded of index futures, if they ought to be increased from 10 to 15 percent.

There's a whole laundry list of suggestions that are floating around and being discussed, and I'm really happy that we have an opportunity to look into some of these suggestions and talk about them.

There may be legislation that the chairman has in mind bringing forth on this subject. It is an interesting opportunity for this committee and, I think, for Dr. Gramm to have an opportunity to hear some of the views expressed about what some of the solutions may be to these problems.

So I welcome you here and congratulate you on your nomination and express the hope and optimism that the committee is going to recommend your confirmation favorably to the Senate.

Thank you.

The CHAIRMAN. I appreciate what you said about when the committee was tied up not only in our regular work but especially because of the Farm Credit matters that we had to deal with last year. It took up a lot of time.

You and I have worked on these commodity questions over the years, and I assure you that is going to be a major area of concern of this committee this year, and not just because of the actions of last October in the stock market and in the commodities market, but just because we are now reaching such an enormous volume of trade, actually 24-hour trade. Even though our markets are closed, others are open.

It is extremely important, and it will be a major concern of this committee this year.

Dr. Gramm, you had spoken in your opening statement of your background in the areas qualifying you to take on the duties of Chairman of the CFTC. Because your background has not been specifically in these areas, as you know, a number of people have raised questions, and you and I, as I said earlier, discussed this issue.

Do you have any experience in the futures markets or other financial markets?

Dr. GRAMM. No direct experience in specific research, academic level research in the financial markets or in the agriculture area. But I am an economist, as I said earlier, and all of these markets are the subject of what we study on a regular basis.

The CHAIRMAN. In the academic area, did you study then the markets?

Dr. GRAMM. Yes.

The CHAIRMAN. Did your position at the FTC as Director of the Bureau of Economics ever cause you to consider issues of regulations affecting the futures markets?

Dr. GRAMM. No, it did not. [Pause to change microphone.] You asked about whether, when I was at the FTC, my work touched at all on futures markets. The answer to that is no, it did not. We reviewed some banking, financial regulations and indeed enforced some of the regulations for consumer finance institutions as they applied to consumer protection responsibilities, and had some overlapping interest in some of the securities issues and disclosure issues as well, but not directly, specifically in the futures areas.

The CHAIRMAN. As head of the Office of Information and Regulatory Affairs at OMB, did you have occasion to review CFTC paperwork requests or rules which contain paperwork requirements?

Dr. GRAMM. Yes, under the Paperwork Reduction Act, we do review all information collections by all agencies, including inde-

pendent agencies and including the paperwork that is embedded in rules.

Now, we do not specifically review individual rules themselves, except to the extent that they are part of the paperwork review.

The CHAIRMAN. You provided the committee with a list of the Paperwork Reduction Act reviews which your office undertook concerning CFTC paperwork requirements during your tenure. Is that list complete now, the one you provided us?

Dr. GRAMM. Yes.

The CHAIRMAN. Then without objection, that will be made part of the record.[1]

[A letter of correspondence pertaining to the CFTC paperwork follows:]

[1] The material is retained in the committee file.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON D.C. 20503

Mr. John Podesta
Chief Counsel
Committee on Agriculture, Nutrition, and Forestry
United States Senate
651 Dirksen Senate Office Building
Washington D.C. 20510

Dear Mr. Podesta:

I appreciate the time you took visiting with me and look forward to talking with you again soon. Enclosed is the material you requested.

You asked first for any formal comments we may have made on rules of the Commodity Futures Trading Commission (CFTC) during my tenure as Administrator of the Office of Information and Regulatory Affairs. As you know, we do not review the rules of independent commissions under Executive Order No. 12291. Therefore, there are no CFTC rules on which we commented under our Executive order authority. Neither did we submit comments to CFTC's public docket on any published CFTC rules.

We do, however, review, under the authority of the Paperwork Reduction Act, information collections contained in rules of independent commissions. You asked specifically for a list of our reviews of CFTC information collections under that Act. This list is enclosed at Tab A. Entries on the list include any remarks we made at the conclusion of our paperwork reviews.

You further requested any other written communications from my Office to the CFTC regarding our Paperwork Reduction Act reviews, including any comments to the CFTC regarding issues over which argument may have occurred about the application of the Paperwork Reduction Act. A search of our files revealed no comments in the latter category. We did find, and are enclosing, several pieces of correspondence related to our Paperwork Reduction Act authority, one regarding the CFTC's Audit Trail requirements and several others related to the Information Collection Budget. These are listed below:

(1) May 22, 1986 letter to Susan Phillips regarding our review under the Paperwork Reduction Act of CFTC's Audit Trail rule (Tab B).

(2) February 4, 1987 letter to Susan Phillips regarding the FY 1986 Information Collection Budget (Tab C).

(3) April 14, 1986 letter to Molly Bayley regarding the FY 1986 Information Collection Budget (Tab D).

(4) July 16, 1986 letter to Molly Bayley regarding the FY 1986 Information Collection Budget (Tab E).

(5) November 26, 1986 letter to Susan Phillips regarding the FY 1986 Information Collection Budget (Tab F).

You also asked for a list of Securities and Exchange Commission (SEC) rules which we reviewed. As I mentioned above, we do not review the rules of independent commissions under Executive Order No. 12291. We did submit a comment to SEC's public docket on December 17, 1987, regarding SEC File No. S7-33-87, Proposed Rules Concerning Acquisitions During and Following a Tender Offer. This comment is enclosed at Tab G.

Finally, we have enclosed, as you requested, a list of all SEC information collections reviewed under the Paperwork Reduction Act. This list (Tab H) includes all remarks we made at the conclusion of our reviews.

I hope these materials will be of use to you. If I can be of any further help, please call.

Sincerely,

Wendy Gramm

Wendy L. Gramm
Administrator for Information
and Regulatory Affairs

Enclosures

cc: Mr. Charles Riemenschneider
Staff Director

The CHAIRMAN. The only substantial review included in that list, at least the only one which rose to the level of your corresponding with the Chairman of the CFTC, was the Commission's audit trail rules, am I correct?

Dr. GRAMM. Yes.

The CHAIRMAN. How much time did you yourself spend working on or reviewing that audit trail rule?

Dr. GRAMM. Actually, my review of that was somewhat limited. I did review it, raising questions. At that point, the question was whether or not the audit trail paperwork information collection would be imposing additional paperwork burdens, and, therefore, should it be reviewed under the Paperwork Reduction Act. So it was almost a question of—is this paperwork that should be reviewed?

We decided it was, and, therefore, I asked to review it under the Paperwork Reduction Act. We did so review it, and approved it.

The CHAIRMAN. Did you personally meet with Chairman Phillips or other Commission personnel to discuss that rule?

Dr. GRAMM. I sent her a letter, and I believe I discussed it with her, maybe over lunch, along with other interests. We are both economists, have some mutual acquaintances, and got together. As I recall, we got together for a luncheon, and that was one of the issues that we discussed.

The CHAIRMAN. Did you have occasion to meet with members of the futures industry to hear their concerns about the potential impact of the rule?

Dr. GRAMM. No, I did not.

The CHAIRMAN. You did not meet with any representatives of the futures industry in any form or another?

Dr. GRAMM. No, I did not.

The CHAIRMAN. Did your staff do any studies of the futures industry to determine whether the audit trail rule was practical or feasible?

Dr. GRAMM. Yes. The purpose of our paperwork review is to determine whether or not the additional reporting burden has practical utility, and is the agency obtaining that benefit, while imposing minimum burden on the public. My staff did review it and did approve it.

The CHAIRMAN. As you look back at your experience at the FTC, OMB, academic and all, that does not make you an expert in the futures industry or the financial markets as a whole, does it?

Dr. GRAMM. That is correct.

The CHAIRMAN. Let's talk about the October 19 market crash. Have you had a chance to study and read the Brady Commission report?

Dr. GRAMM. I have had a chance to go over the report, and review some of the recommendations that were made.

The CHAIRMAN. Have you had a chance to look at some of the other reports? There was a preliminary CFTC report, a GAO preliminary report, the New York Stock Exchange Katzenbach study, and the Chicago Mercantile Exchange Miller study.

Dr. GRAMM. I have read over all of those reports in some detail. Now, I have not committed all of it to memory. I have not under-

taken the analysis that I feel I need in order to understand the underlying data. I have not done that yet.

The CHAIRMAN. And you haven't had a chance, I would assume, to thoroughly review the SEC's study or the CFTC final study, is that correct?

Dr. GRAMM. I have not had a chance to review those studies thoroughly. They seem to be coming at the rate of an inch a day.

The CHAIRMAN. It is an accelerating rate. But you're fairly familiar with the preliminary data and some of the various ideas for reform that have been thrown around?

Dr. GRAMM. That's right.

The CHAIRMAN. Do you agree with the Brady Commission's conclusion that we now have one linked global market for stock, stock index futures and options?

Dr. GRAMM. I do agree that the markets are linked. Very frankly, I think that anyone who has looked at this market for some time understands that futures markets are always inextricably linked to the underlying product market—so, in that sense, that is not something that is new.

The fact these futures markets and the underlying cash markets are linked is something that I would agree with, and I agree that all futures markets and the underlying commodities markets are like that.

I also believe that, as most economists do, that markets indeed are linked in a number of ways. The market for beef is inextricably linked to the market for hides, for example. One of the factors that we always look at as economists is the impact of actions in one market on other markets.

The CHAIRMAN. Do you think there is a continuing rationale for the separate regulation of stocks, stock index futures and stock options?

Dr. GRAMM. Absolutely. Just because markets are linked does not necessarily mean that you should have just one regulator over those markets. Indeed, the futures markets and the functions of the futures markets are very different than those of the underlying securities markets and the underlying commodities markets.

The CHAIRMAN. Earlier, Senator Bond and Senator Cochran talked about Alan Greenspan appearing before the Banking Committee yesterday. He seemed to suggest merging the CFTC into the SEC. How do you feel about that?

Dr. GRAMM. I would be opposed to that idea. First of all, the President didn't ask me to become a senior staff member of the SEC or the Federal Reserve Board for that matter. He asked me to chair the CFTC—implying a recognition of the importance of that agency and the mission that it has.

Very frankly, I think that it is neither necessary nor appropriate at this time to consider the merger of those two agencies. That is a question that has been raised over time over the years, and I believe that most of the reports, including the Brady Report, and the GAO Report, and the SEC and the CFTC do not advocate and do not recommend the merger of the two agencies, and I support that view.

The CHAIRMAN. Do you see the possibility of the merging of them at some future date?

Dr. GRAMM. I don't see it at this time, no.

The CHAIRMAN. Well, I agree. I think merging those two agencies would be about as beneficial to the economy as the corporate merger mania that helped inflate the stock market in the first place and brought about some of the problems we have now. That's an editorial comment which is not part of a question.

Dr. GRAMM. We economists believe in competition, you understand, including competition between regulatory agencies.

The CHAIRMAN. I also note the Brady Commission recommended consistent margins between the stock and stock index futures markets. Some others have recommended higher margins for futures or giving the Federal Reserve the authority to set margins on futures contracts.

Do you think the margin has the same function in the stock and the futures market?

Dr. GRAMM. No, it does not.

Let me back up a little bit to answer Senator Melcher's question about whether or not I would be independent from my husband. I believe my husband has said at some point in time that he's never been able to control me in 18 years. Very frankly, please don't attribute his comments to me either. I don't take responsibility for his actions or his comments.

The CHAIRMAN. None of us do either, Dr. Gramm, I hasten to add.

Dr. GRAMM. But back to the issue of margins. You are indeed very right that margins play a very different role in the securities markets from that in the futures markets. In the futures markets, they're a performance bond much like earnest money in a real estate contract, whereas on the securities side they are a down payment toward a loan on the value of the transaction.

But there's another side of it as well. As to the question of consistent margins, I'm are not really sure what that means. First of all, it's not clear to me that the margins aren't consistent now.

In the futures markets, you have an entirely different margining system. Even though initial margins may appear to be a lot lower than the margins on the equity side, these are initial margins that are paid by both the buyer and the seller.

As you know, in many cases, futures contracts end up in a reversal of the position, an unwinding of a position later, at which point there is another margin. Also, you do have the market process whereby additional margins are collected at the end of each day. In periods of volatility, such as the period of October 19, that week, the margins were changed on a intraday basis, and additional margins were collected.

One of the things that I would like to do is go back and look at those data. I believe that you may well find that there are futures dealers that probably paid some substantial margins during that time period. Then, on the other side, on the securities' side, even though the margin is ostensibly set at 50 percent, what we are also finding is some broker dealers are not paying that amount, and basically the buyers are paying that margin at one point at a time.

So you have an entirely different system, and I don't know what "consistent" really means. It sounds equivalent to saying, as economists sometimes say, that prices between the cattle market and the

grain market are consistent. Because the markets are related, prices must be consistent if the markets are to be efficient and to be accomplishing the objectives that they are have.

The CHAIRMAN. Do you think the initial margin requirements on stock index futures—I'm thinking now just before the crash—were they too low? Were they too high? Were they about right? Or do you want to reserve judgment?

Dr. GRAMM. Let me tell you what my views are. I would also like to go back and look at that issue more carefully with the CFTC staff and review the reports.

But if you look after the fact, you do find that the clearinghouses did collect a lot more margin during that period when they felt that they needed to. Margin requirements change. A lot of margin was collected, and you didn't have on the futures side any failures because there wasn't enough margin collected.

As I said earlier, the system appeared to work, and very frankly, to be very responsive. What strikes me is the fact that the regulators and the SRO's were very responsive as the conditions changed, and conditions were changing very rapidly during that period.

I question whether or not somebody sitting in Washington, say, could have reacted that quickly in a lot of different cases to establish the right margins.

The CHAIRMAN. But let me follow up on that just a bit. Should somebody in Washington, the Federal Reserve or the CFTC, have the authority to step in and set margins if they think the exchanges aren't doing it adequately?

Dr. GRAMM. What is the question now?

The CHAIRMAN. Do you think that either the Federal Reserve or the CFTC or any Federal regulator—you talked about whether Washington could move quickly enough on this—should have standby authority to come in and set margins if they think that the exchanges are permitting the margins to go too low?

Dr. GRAMM. I think that's something certainly worth considering and looking at.

The CHAIRMAN. I think we're going to be interested in your views on that as we go along.

Dr. GRAMM. I think it is worthwhile pointing out that on the futures side that the clearinghouses have assumed the responsibility for contract performance. Basically they become responsible for being the buyer to every seller and the seller to every buyer.

So they have a lot of incentive to make sure the margins are neither too high to drive business away or too low because then the individuals wouldn't perform on those contracts. But that is something that is worth looking at.

The CHAIRMAN. A lot of people have concluded the CFTC's data collection audit trail requirements in the futures market were far superior to those in the SEC in the stock market. Do you agree with that?

Dr. GRAMM. I believe that most of the data that are being used now to analyze what happened are based on the CFTC large trader data and on the audit trail. That speaks well for the ability to monitor and keep track and understand what is happening.

The CHAIRMAN. In fact, a lot of the studies I've seen said that there should be increased data collection in the stock markets to

permit better intra- and intermarket trade reconstruction. Do you agree with that generally?

Dr. GRAMM. I think that's a consideration that's well worth looking at. One of the questions that arises today in looking at the CFTC and the SEC report is indeed what was happening on the stock side.

The CHAIRMAN. The CFTC had that audit trail requirement on the futures exchanges and the information that came from it has been used to analyze the crash. But you feel that was useful. You feel the information that came from the audit trail requirement was useful?

Dr. GRAMM. Yes.

The CHAIRMAN. In fact, it was probably more than useful. If we didn't have it, we wouldn't be able to reconstruct it.

Dr. GRAMM. There is no question that is so.

The CHAIRMAN. We would probably be just going on people's impressions and anecdotal information. When your office, though, at OMB reviewed the audit trail rule in May of 1986, you were pretty skeptical about the benefits of minute-by-minute trade reporting and found it didn't justify the burden it might put on the industry. Is that a correct summary?

Dr. GRAMM. As I remember, the question really was one of whether this was a paperwork burden, an additional burden that we should review under the Paperwork Reduction Act. At first CFTC said, no, the Paperwork Reduction Act wouldn't apply. We thought the act did apply, and we looked at it carefully as we do all items.

The CHAIRMAN. But you only approved it for 18 months instead of the normal 3 years, is that correct?

Dr. GRAMM. That is right. We often do that for large systems where there are lots of uncertainties about how it's going to be implemented, et cetera, and it makes sense to reassess it sooner than usual to see whether or not it has the desirable impacts and whether or not it is imposing unreasonable burdens.

The CHAIRMAN. Do you feel more comfortable with the rule now than you did back in May of 1986?

Dr. GRAMM. Yes.

The CHAIRMAN. The proof is in the pudding.

Dr. GRAMM. Yes.

The CHAIRMAN. The Brady Report has reported about giving the Federal Reserve Board some authority. Somebody referred to it in the notes I have here as an emergency circuit breaker if other crises occur. What do you think about giving the Fed that kind of authority?

Dr. GRAMM. Well, again, I think that if cooperation like the cooperation between the regulators that occurred during this extraordinary week of October 19 through 23—if that kind of cooperation not only with domestic regulators but with international ones as well can continue to work, I feel that would be the preferred approach.

One question, and it's something that I want to look at further, but one of the questions that I have is what exact kinds of emergency authorities are you talking about. Are you talking about giving some of the authority of the CFTC to a different agency, re-

membering that the Fed and the SEC have different responsibilities than the CFTC?

And I would want to be sure that if we have another stressful period, the CFTC's concerns and the concerns of the futures markets will be taken into account.

The CHAIRMAN. GAO talked about some kind of a contingency plan right now.

Dr. GRAMM. Right.

The CHAIRMAN. And what I would ask you to do, is to look at these possible emergency authorities, and as soon as you have some views on where that might go, even preliminary views, I would appreciate it if you would let Senator Lugar and I and the committee know your preliminary views, because there's going to be a constant clamor for doing something now before the next stock market crash. I would like to be able to review those as quickly as you are able to provide them.

I've taken a great deal of time. Let me just go through the standard questions. I am going to then yield to Senator Lugar.

If you are confirmed by the Senate, will you faithfully execute the laws passed by Congress regardless of any prior statements you have made or biases you may have held?

Dr. GRAMM. Absolutely.

The CHAIRMAN. If your nomination is approved by the committee and the Senate, do you promise to respond to requests to appear and testify before this committee or any other duly constituted committee of the Senate?

Dr. GRAMM. Yes.

The CHAIRMAN. Over the years, this committee has had an excellent working relationship with the CFTC. We've had an open, cooperative relationship with the Commission. Information was always forthcoming when requested. That has not always been the attitude about requesting information from the Office of Management and Budget.

Can you put aside anything that you might have learned from a Jim Miller seminar on Stonewalling 101 and change it to maintaining the open relationship of the CFTC, one that has existed under both Democratic and Republican administrations?

Dr. GRAMM. I understand there has been a very good relationship, and I look forward to continuing that relationship.

The CHAIRMAN. I think it's one that everybody on this committee, both sides of the aisle, rely on because the CFTC and its workings is one of a great deal of interest to all of us.

I yield to Senator Lugar.

## STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Thank you very much, Mr. Chairman. I think you've raised a number of questions in your initial question that some of the rest of us would want to have raised.

I just want to welcome you to the committee and I would like to make my statement in behalf of this nomination a part of the record, but I would summarize by saying I look forward to supporting your nomination and appreciate your interest in this field.

[The prepared statement of Senator Lugar follows:]

PREPARED STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

NOMINATION OF WENDY GRAMM TO BE CFTC CHAIRMAN

Mr. Chairman, it is my pleasure to join you in welcoming before the Committee Mrs. Wendy Gramm, the President's nominee for Chairman of the Commodity Futures Trading Commission. I would also like to indicate my intention to support Mrs. Gramm for this position.

Mr. Chairman, Mrs. Gramm comes to this position uniquely qualified, with a varied and distinguished record in public service. Most recently, she has served as Administrator of the OMB's Office of Information and Regulatory Affairs. Earlier, she directed the Federal Trade Commission's Bureau of Economics. Prior to coming to Washington, she was professor of economics at Texas A&M University.

As members of the Committee are aware, I strongly support the continued role of the CFTC as the independent agency having regulatory oversight over the futures industry. Mrs. Gramm will preside over an industry that has grown manifold during the past decade. One of the most prominent growth areas has been the genesis and proliferation of stock index futures, which of course are a topic of considerable interest to the Committee at this time. During the questioning phase of this hearing, I will be focusing on this aspect of the futures industry.

Senator LUGAR. Let me just take off where Senator Leahy left it. It seems to me that, at least as I think through my own views of this, listening to the questions and answers, I am less concerned about your current views on the Brady Report or the CFTC Report or the SEC Report or the Katzenbach Report or others—I think these are very important contributions to a subject which Americans have a profound amount of unease, and I think that is going to be with this committee, with you in your tenure for sometime to come.

I don't know where we ought to come out with regard to a circuit breaker or changes in margins or an overall authority, taking a look at the continuity of exchanges in this country as well as those abroad.

I do believe that Senator Brady's report was an especially important contribution and he did highlight the fact that during the period on October the 20th there is some evidence that the markets had discontinuity and that if not a free fall or collapse, we were very close to something there that was irreparable, and that's going to weigh heavily on all of us.

The CFTC and the markets that it attempts to regulate were an important part of that process and will continue to be, and my own bias is to favor the CFTC as an independent agency looking over the futures markets.

But I think that we will all have to play a role on behalf of public policy in bringing confidence that this is a seamless web insofar as it can be as opposed to a contending group of agencies fighting for turf and for particular constituencies because our markets are heavily interrelated.

I think you've wisely indicated that you see merit in these things, that you're reviewing them, that you're going to consult with the staff of your agency, hopefully with the staffs of other agencies, other people, in government, but I appreciate the chairman's request that as you begin to see some points of view jelling, that you share those with the committee members as rapidly as possible so that we will not be blind-sided by the agency that we're

attempting to oversee, because we hope for a very close relationship with you and your colleagues as we have had.

I would just add parenthetically that during the reauthorizations of the CFTC that work in a bipartisan way of the committee has been, I think, very important, and there has been good cooperation by the industries that were to be regulated and the various markets as well as the technical expertise of the agency to change the law each time in ways that I think have strengthened the confidence in this very complex market.

We've tried to make the point again and again, that this industry is a very lucrative one. It's a very important one for our country. It employs tens of thousands of people now, has a very great effect upon farmers as well as investors.

The slightest hint of difficulty in this that would throw any lack of confidence into the picture really would jeopardize a remarkably good thing for America. So it seems to me you have a very, very tough job, a very important responsibility to call it as you see it and rapidly and to make certain there's not a hint of difficulty, malfeasance quite apart from scandal surrounding this thing or the casualties are likely to be very, very numerous. I know that you understand that.

Dr. GRAMM. I appreciate those comments, and I fully agree with your concerns and the points that you make.

Senator LUGAR. As you survey the current staff situation, you have there at CFTC now in place the people that you need to regulate and to perform the duties that the CFTC is charged with.

Dr. GRAMM. First of all, I have not gone in and looked at the staff in detail, but I have been very impressed with the work that they have done, not only in the past but also in the recent weeks.

Now, whether or not there might be more that's needed or not, I understand that the budget request did go up, and the President's budget will be coming out very shortly, and I believe that that budget does represent a sufficient amount of resources.

I would like to point out, since a question was raised about my expertise in the financial and in the agriculture area—to reiterate the excellence of the staff at the Commission and of the Commissioners themselves, and I would rely not only on them but also on you. It's not just a one-way street. You can help the Commission with your views and your expertise as well.

Senator LUGAR. As soon as you have an idea of the budget request and how it fits, will you share that with the committee and your own views of the adequacy of that as rapidly as possible, because you do have friends here of the agency who are as concerned as you will be about the adequacy of that staffing and the expertise that you have available for these very important duties.

Have you reached out in preparation for this hearing or for this responsibility to agricultural groups? In other words, I suppose one aspect of this nomination, and you touched upon this, is your knowledge of agriculture and how agriculture is impacted by the futures industries.

Can you give us some background or some reassurance that you understand that part of the responsibility?

Dr. GRAMM. Obviously I understand the foundation from which the CFTC came. As a matter of fact, I had the pleasure sometime

ago to have lunch with Secretary Lyng who gave me a history of the birth of the CFTC when he was Assistant Secretary in the Department of Agriculture many years ago.

I have not, in preparation for the hearings, met with people outside the Federal Government. That is a process that I will undertake immediately after confirmation, if confirmed.

However, I do understand that there is a very good CFTC staff. There is also an advisory committee for the Commission that is a way to receive information from and provide information to the agricultural groups, and Chairman Hineman has been chairman of that committee in the past. I think that is an excellent idea.

I have been invited to give two major speeches, if confirmed, and I have told the two groups, one of which is an agriculture group, that, if confirmed, I will speak to them. I will just want to make the point that while a lot of attention is being focused on the financial part of the CFTC, the agricultural side is also very important. Both for the financial side and on the agricultural side there is a lot of education and information that I think will be valuable for the public.

Senator LUGAR. Your comment is an important one because a large amount of the confidence in the constituency for the Commission has come from agricultural producers over the years and likewise many of the criticisms of CFTC. As you've reviewed that history, I think you'll note that from time to time producers have come to this table and they've said the CFTC is overlooking a gambling operation. This is not an economic situation.

People have charged that the futures markets have really influenced prices and therefore the profits of farms. So it's an education process but likewise an understanding process.

Dr. GRAMM. Absolutely.

Senator LUGAR. You could have a perfectly functioning market and in terms of the economics of this thing, at least in an academic sense, be impeccable, but if farmers in this country and other producers do not see it in the same way, the politics of the thing are very difficult.

Again and again I think this committee and the agency have faced that, and this is why I would encourage you to visit with as many of the producer groups, recognizing that in some ways their portion of the CFTC thing is a diminishing one, but a very important part of the constituency that maintains the independence of this agency and that gives this committee really its jurisdiction to begin with.

Dr. GRAMM. Yes, I think that's a good point.

Senator HARKIN [presiding]. Thank you.

Senator Conrad.

## STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. Thank you, Mr. Chairman.

I too want to welcome you to the committee. I enjoyed our conversation the other day very much. I am primarily interested in your basic views of regulation, and the issue I am most interested in is if you have a strong predilection to be opposed to regulation.

After all, this is a regulatory agency, and I know there are some who have a strong view that we ought not to be in the business of regulation.

So I am interested in what your basic philosophical view is on regulation.

Dr. GRAMM. Well, first of all, rest assured I'm not going to go over to the CFTC and start dismantling all the regulations that exist there. As I said earlier, I think that the regulatory structure that is in place, that is implementing the Commodity Exchange Act, did serve us well during the very traumatic period of the October market break.

But my philosophy of regulation starts with the fact that you have to base your regulations on information about the market, and indeed a real understanding of how those markets work, so that the regulation can be aimed at addressing a problem, not at addressing a symptom or some other extraneous factor, but at addressing the problem that needs to be solved, if there is one.

And my philosophy continues with identifying what that problem is, with addressing whether or not that problem might be solved by regulation and, determining where that regulation should come from—for example, in the CFTC structure, is it something that the exchanges might deal with, obviously with oversight by the CFTC, or is it something with which the CFTC should be directly involved.

But we also would have to understand what all the regulatory impacts would be in all the different markets to be sure that we don't have unintended, undesirable effects on the markets themselves.

Senator CONRAD. But you're overall view of regulation, are you someone who basically believes that as many regulations as possible ought to be done away with?

Dr. GRAMM. Unnecessary regulations ought to be done away with, but not ones that serve a real function of, for example, protecting the market, and ensuring financial integrity. I believe that, very frankly, in my brief review of what has gone on at the CFTC, I believe, they have a very well balanced regulatory structure—of having regulations that aren't overly intrusive or having unintended effects.

That's not to say that in light of what we learned from the October break that more might not be done or that changes might not be made.

Senator CONRAD. I am very pleased to hear that answer. It's much in line with my own views. I think the CFTC has functioned extremely well. In fact, I think as we go through this process, we'll find that CFTC is perhaps the shining light of the regulatory agencies.

Let me follow up on a question that the chairman asked, and that is, in the Brady Report is a recommendation that the Fed set up an information gathering system that would compile details about every trade in the stock options and futures markets.

What is your basic reaction, your initial reaction at least to that notion that it be the Fed that would set up that kind of information gathering?

Dr. GRAMM. Well, I would really have to question whether or not the Fed would be the appropriate place to rest a lot of authority. Their authorities are different than the CFTC. I frankly think that if, for example, there are information gaps that are identified on the securities side, the SEC might be the appropriate agency to try to fill the gap.

Now, the extent to which there can be information sharing, without violating privacy or other concerns, that may well occur and should occur—it's not clear that only one agency or the Fed is the place to do it It may be.

I think if the Fed were to be put in charge of overseeing the information collection or what information is needed, they would certainly have to come directly to the CFTC and SEC anyway. It seems to me that the authority then ought to rest with the agencies that know the markets well and know the participants well.

In the case of the CFTC, you already have a lot of information systems in place and they may well suffice.

Senator CONRAD. I think his basic point is that there is no one repository, but that much of the information is already gathered. Certainly the CFTC has done a good job of gathering information, putting in place structures to have information available. It sounds to me like his point is there ought to be one place, one repository where all the information is available.

I find it a little curious that the Fed would be the repository myself. My initial reaction is, why would we make the Fed the repository?

Dr. GRAMM. I think perhaps more can be done in this area of information sharing. But there is another structure, there is the intermarket surveillance group of some of the exchanges. I know that for the past number of meetings that they have included futures exchanges and I think that's probably appropriate, and that would facilitate information sharing to understand what's happening, to determine whether or not there are intermarket problems.

Senator CONRAD. I have one final question, and that relates to a question that I asked you the other day in my office, but I want to repeat it for the record. As you know, cattlemen's groups have felt very, very strongly that the futures market had a price depressing effect on their markets. Some of that tension has eased in recent days, recent months with the increase in cattle prices.

But I would be interested to know your basic view along those lines and how you would address dealing with that constituency who has grave reservations about the futures market.

Dr. GRAMM. Well, as a result of the conversation with you last week, I did read the GAO report on the cattle futures. It was a very useful report for me because of a lot of questions that were raised and discussed. As I told you in the meeting, that if there were concerns that are being raised, as an analyst and as Chairman, I would, if confirmed, like to determine whether or not those concerns indeed are real concerns and evidence of a problem, and if one exists, then that can be corrected.

If the problems arise due to a lack of understanding of how the markets work, then we need to work on communicating how the markets work. As I mentioned earlier, I do understand that the CFTC does have an advisory committee made up of agricultural in-

terests, and I believe that that's a terrific way to continue the dialog to make sure that the Commission is always cognizant of and is hearing the concerns that are being raised by this important group.

I also mentioned that I have accepted, if confirmed, an invitation to speak to the agriculture group, the cattle group as a matter of fact, because I think it is an important constituency of the CFTC.

Senator CONRAD. With that, Mr. Chairman, I conclude my questions. I just make the observation that I look forward to supporting Wendy Gramm's confirmation to the Chairmanship of the CFTC, and as someone with an independent wife, as I know the chairman has an independent wife, and so many of us do, I am convinced she's going to be able to be independent.

Dr. GRAMM. Thank you.

Senator HARKIN. Senator Cochran.

Senator COCHRAN. Mr. Chairman, thank you. I really don't have any questions except to ask, following up on the comments that I made earlier about my support for Dr. Gramm for this position, whether or not you have any hidden agenda or ideas for recommendations for dramatic changes at the Commission that this committee ought to know about.

Dr. GRAMM. Certainly no hidden agenda, and, as I said earlier, I think at this point the markets need some predictability and stability, including predictability about the regulatory structure facing them. So I do not have any dramatic recommendations.

Senator COCHRAN. I was interested in an observation the chairman made about the clamor—I think he used the phrase, "the clamor to do something now" by the Congress to address the perceived problems that exist in the markets, whether we're talking about the stock market or the futures markets.

I would hope that just as an observation in response to his observation, we wouldn't be a part of that clamor in this committee and that the CFTC would not join that clamor but would exercise some care, some caution, and be assured that whatever action is taken is action to improve the situation.

I think it was Alan Greenspan, yesterday, who made the observation that of all the suggestions that he's heard some of them are bad and some of them are worse. I think we ought to listen to the suggestions and observations like that very carefully.

That even though there is a clamor to do something now, that the best action for this committee is for an agency like the CFTC to engage in a process of very careful review and assessment, to first decide whether or not change is really needed.

If it is, well, then, make those changes that will not just make a good system bad or worse.

Dr. GRAMM. Yes, I agree with you totally on that. I frankly think the CFTC has been a calm voice of reason in the past few weeks, and I look forward to working with them to ensure that continues and to working with you.

Senator COCHRAN. Thank you, Mr. Chairman.

Senator HARKIN. Senator Daschle.

**STATEMENT OF HON. THOMAS A. DASCHLE, A U.S. SENATOR FROM SOUTH DAKOTA**

Senator DASCHLE. Thank you, Mr. Chairman.

Dr. Gramm, I, like many of the colleagues who have already spoken, want to welcome you to the committee and express my support for your nomination, but having said that, and in the spirit of real bipartisanship here that the ranking member always demonstrates in this committee, perhaps I could just openly express a couple of concerns. I want to be supportive, but I do so with some reservation.

I am concerned about the statement that your nomination may make to the industry and to the constituency that Senator Conrad addresses. I think what we're going through, as has been said by Senator Cochran, is a very delicate time, and as he indicated, it would be a mistake for us to overreact in this delicate, sensitive time by a new spurt of regulation that is not thought out and that ultimately may be detrimental.

But it also would be just as disastrous in this time when Shad-Johnson will be scrutinized by many different parties, for us to deregulate, for us to abandon the role of the CFTC.

You come in with no experience in the field of agriculture and futures markets, and as one who has espoused deregulation throughout her public career. As you said yesterday, there are practical reasons for deregulation, but deregulation as a philosophy has not borne out very well in the last few years, at least as we consider airlines and transportation and banking and other industries.

That isn't to say, that someone with your philosophy can't fit very well on the CFTC, but I see your role as both a regulator and an educator. There's a great need for educating people in our country today about the futures market.

It's not a quiet little Commission. It is probably one of the most challenging, aggressive commissions that exists today because of the volatility of the market. And so someone with your responsibility is going to feel immense pressure, and I don't think we can afford an education in the process.

Someone like you who comes in with your lack of experience has to do more than just rely upon staff. If we have a staff-reliant Chairman, it could be very detrimental to us. You're the leader. You're the Chair. You're the one directing them, not vice versa.

I don't mean to sound as though I'm lecturing you. I'm just expressing some frustration and some concern about the way this process is working. But I think that given your intelligence, given your ability, given your past success in so many other positions, I think we ought to take the gamble, and I think you ought to be given the opportunity.

But having said all that let me just ask a couple of brief questions. How would you differ from Susan Phillips in the way you see the Chair?

Dr. GRAMM. I don't know how she saw the Chair, so I don't know to what extent I would differ in that area. But I do agree with you that as Chairman of the CFTC I would have to be a leader, and one

of the things that I think I would bring to the Commission is analytical ability.

My whole professional career has been spent analyzing and understanding markets and regulations. I won't go into a discussion of deregulation in the other markets, but at OMB we reviewed some 2,000 new regulations per year. We're not always in the process of getting rid of them. We recognize the value that regulations can play in the marketplace and in implementing statutes and in protecting customers and protecting the consumer.

I do recognize that there are some who may think of me as being totally against all regulations, but as I said earlier, my philosophy on regulations is one of ensuring that regulations are based on adequate information, on identifying and trying to address a problem in the market, and understanding how regulations will work.

That, I think, is what's critical at this point in time at the CFTC.

Senator DASCHLE. Second question. The Brady Commission made a number of recommendations. Perhaps the one most threatening, if that's the term, at least the most revolutionary, the most radical, is the elimination of Shad-Johnson and the combination of dual responsibilities in one oversight commission.

Do you envision supporting any change in Shad-Johnson as you see it today?

Dr. GRAMM. I believe that the Shad-Johnson Accord basically is working well in terms of telling people where agency jurisdictions are. It does seem to make sense, for example, that you have the lines drawn very carefully, especially where you have similar products being regulated by the different agencies. I still think that there is a reason for that. You have, for example, options on foreign currencies that are sold on futures markets being regulated by the CFTC, whereas if they're sold on securities exchanges they are regulated by the agencies that oversee that exchange.

Again, I think that there will be a lot of calls to review the whole regulatory structure, and I want to participate in that review.

Senator DASCHLE. Philosophically without pinning you down because I know you can't anticipate all of the contingencies out there, but philosophically, you support the concept of Shad-Johnson and you would oppose any merger?

Dr. GRAMM. Any merger of the agencies. That's right.

Senator DASCHLE. Any significant change in that relationship?

Dr. GRAMM. That's right. As I said earlier, I don't believe that a merger of any sort is either necessary or appropriate at this time. I think the market needs some stability and some predictability, including predictability about future regulatory structures, and that's what's most important right now.

That's not to say that we can't learn and see where regulations might be strengthened, if necessary.

Senator DASCHLE. Well, like so many other Members, I anticipate your confirmation and look forward to working with you. This is a challenge that we both take on, and we're looking forward to the partnership.

Dr. GRAMM. Thank you. I do too.

Senator HARKIN. Thank you very much, Dr. Gramm. I came in late. I apologize. I have a couple of questions. In the past I have

been supportive of futures trading. Even when the cattlemen were up in arms over it, I said that there was a legitimate purpose for futures trading.

I am one who traditionally believes that the futures trading is necessary as a dampening effect. You dampen wild swings. People can plan ahead. They can lock in a price, and it tends to give some assurance to the marketplace as to what that market is going to be sometime down the road. So it dampens those wild swings that we used to have prior to futures trading.

That works as long as I think there's a decent regulatory agency to make sure that it does work, but now we're getting into a whole new area of trading on futures—options. And I would like to just explore with you what your view is of options, how you feel about them, and how far should options trading go in dealing with commodities?

Dr. GRAMM. Well, I believe that options and a number of other new instruments are being developed. And again, it's an area that I think merits very careful consideration, but one of the things I think we have to be mindful of is the fact that options and some of the other derivative financial instruments really serve the same function that the futures on commodities did, and they serve as a way to obtain some information about prices and also to hedge your risk. Very frankly, I believe that that is a valuable role and there is a demand for that kind of role, be it from managers of large portfolios of assets or from large investors who might want to have these same functions available.

So I believe that you have to continue to have some careful oversight if you're dealing, for example, with futures on options on, say, financial instruments. You have to be sure that they do perform some economic purpose as the act requires and ensure that when sold they will be free of market manipulation and fraud.

Senator HARKIN. How many options are there right now?

Dr. GRAMM. The options contracts, I don't know the volume. Again, in the options area, there is a somewhat split jurisdiction. When you're talking about options on futures, that is something that comes under the CFTC jurisdiction whereas options on stocks themselves are under the SEC.

Senator HARKIN. I'm only talking about commodities. How many different commodities have options on them right now, do we know? Does anyone know here?

SENATE STAFF. I think there are three—soybeans, wheat, and corn, I believe.

Senator HARKIN. And sugar. Four maybe.

CFTC STAFF. Probably 20 on options and futures.

Senator HARKIN. I'm just talking about ag commodities.

CFTC STAFF. Seven or eight.

Dr. GRAMM. That's a tough question. I'll get you the answer.

[The material follows:]

**How many options are there on agricultural commodities?**

There are 18 agricultural options currently designated. They are all options on futures contracts. They are:

| Exchange | Commodity |
|---|---|
| Chicago Board of Trade | Corn |
| | Soybeans |
| | Soybean Meal |
| | Soybean Oil |
| | Wheat |
| Chicago Mercantile Exchange | Live Cattle |
| | Feeder Cattle |
| | Frozen Pork Bellies |
| | Live Hogs |
| Kansas City Board of Trade | Wheat |
| MidAmerica Commodity Exchange | Soybeans |
| | Wheat |
| Minneapolis Grain Exchange | Wheat |
| New York Cotton Exchange | Cotton |
| | Frozen Concentrated Orange Juice |
| New York Coffee, Sugar, and Cocoa Exchange | Coffee |
| | Sugar |
| | Cocoa |

Senator HARKIN. I thought I'd get a quick answer on that one. We don't even know how many options are out there. I'm not saying just you. I'm sure the industry is sitting out there someplace and I can't even get an answer.

Again, I have concerns, as Senator Daschle said, about balance. I can see perhaps the reason for options someplace, but I'm wondering how far we carry it. We have options on commodities. Do we have options on financial instruments now? I think we do if I'm not mistaken. Do we have options on options now? I mean, how far do you carry something like this?

I've had a number of my constituents, and I don't mean just producers, a variety of different people who invest in futures one way or the other, raise some very serious concerns about options trading, and whether or not they're really necessary especially in some of the agricultural commodities.

Again, I was trying to elicit your view on it and how far you think options trading ought to go, how stiffly they ought to be regulated, and whether or not they really have a valuable economic purpose insomuch as we have a futures market for agricultural commodities.

There may be a distinction between agricultural commodities in that regard and financial instruments. I don't know. I'm just again asking to explore with you just for a brief minute or two your thoughts on that, on options trading itself as it deals with agricultural commodities.

Dr. GRAMM. Well, I think that you can hedge your risk through options in different ways or hedge a risk with different transactions costs as well, and I think that's an area that bears careful scrutiny.

I don't have a preconceived notion about it at this point in time. I do know there are some questions that have been raised, I think on the option security side, as a result of the recent market break.

But again, just as there is often concern over futures contracts and some of the derivative instruments, my approach is always to take a careful look. I don't say that I have a bias against options at all. They have a value to many in hedging risk and putting together some hybrid instruments.

Senator HARKIN. The chairman asks if you would respond to question in writing.[1] I only had one other question dealing with regulations, but I suppose I could submit that in writing.

I thank you for your response and for being here on behalf of the rest of the committee.

Thank you very much, Dr. Gramm.

[Whereupon, at 11:35 a.m., the committee adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

[1] Questions and answers may be found on page 40.

BIOGRAPHICAL INFORMATION (PUBLIC)

1. **Full name (include any former names used).**

Wendy Lee Gramm (formerly Wendy Lee).

2. **Address: List current place of residence and office address(es). List all office and home telephone numbers where you may be reached.**

Residence: 4201 Yuma Street, N.W.
Washington, D.C. 20016
Phone: (202) 362-5541

Office: Administrator for Information
and Regulatory Affairs
Office of Management and Budget
246 Old Executive Office Building
Washington, D.C. 20503
Phone: (202) 395-3864

3. **Date and place of birth.**

January 10, 1945. Waialua, Hawaii.

4. **Marital Status (include maiden name of wife or husband's name). List spouse's occupation, employer's name and business address(es).**

Married. Phil Gramm
United States Senator
370 Russell Senate Office Building
Washington, D.C. 20510

5. **Education: List each college and graduate or professional school you have attended, including dates of attendance, degress received, and dates degrees were granted.**

Attended from September 1962 - June 1966
Wellesley College, B.A. (Economics), 1966

Attended from September 1966 - August 1970
Northwestern University, Ph.D. (Economics), 1971

6. **Employment Record: List (by year) all business or professional corporations, companies, firms, or other enterprises, partnerships, institutions and organizations, nonprofit or otherwise, including farms, with which you were connected as an officer, director, partner, proprietor, employee since graduation from college; include a title and brief job description.**

| From | To | Position |
|---|---|---|
| 10/85 | Present | Administrator, Office of Information and Regulatory Affairs<br>Office of Management and Budget<br>Washington, D.C.<br>(Review paperwork and regulations of federal government. Review, coordinate, and provide guidance on information policy, information resources management, statistical policy for federal government.) |
| 12/86 | Present | Executive Director, President's Task Force on Regulatory Relief<br>Washington, D.C.<br>(Provide staff support to the Task Force.) |
| 11/84 | 10/85 | Director, Bureau of Economics<br>Federal Trade Commission<br>Washington, D.C.<br>(Supervised economists in Bureau of Economics in providing economic analysis to commissioners on antitrust and consumer protection issues.) |
| 2/83 | 8/84 | Director, Bureau of Economics<br>Federal Trade Commission<br>Washington, D.C.<br>(Supervised economists in Bureau of Economics in providing economic analysis to commissioners on antitrust and consumer protection issues.) |
| 3/82 | 2/83 | Assistant Director<br>Division of Consumer Protection<br>Federal Trade Commission<br>Washington, D.C.<br>(Supervised economists in Bureau of Economics providing economic analysis for commissioners on consumer protection matters.) |
| 1/79 | 2/82 | Research Staff Member (Top secret clearance)<br>Institute for Defense Analyses<br>Alexandria, VA<br>(Provided economic analyses of various defense-related issues.) |

| | | |
|---|---|---|
| 9/70 | 1/79 | Texas A&M University<br>College Station, TX |
| 1975 | 1979 | * Associate Professor<br>(Taught University courses; undertook research projects.) |
| 1974 | 1977 | * Director of Undergraduate Programs<br>(Advised undergraduate economics majors; prepared undergraduate teaching schedules; and generally oversaw undergraduate economics program for the Department of Economics.) |
| 1970 | 1975 | * Assistant Professor<br>(Taught Univerisity courses; undertook research projects.) |
| 9/70 | 1/79 | Self-employed consultant<br>(Did economic research and reviewed textbooks for various clients.) |
| 9/69 | 12/69 | Instructor (part-time)<br>Department of Quantitative Methods<br>Univeristy of Illinois, Chicago, IL<br>(Taught statistics to undergraduate business students for one term.) |
| 6/67 | 9/67 | Methodist Church<br>Main business office (secretarial)<br>Evanston, IL<br>(Typed drafts.) |
| Summer 1965<br>Summer 1966 | | Castle & Cooke, Inc.<br>Honolulu, HI<br>(Secretarial - primarily filled in for vacationing secretaries for company and several subsidiaries.) |
| Summer 1964 | | Reetz Farms<br>Eugene, OR<br>(Picked strawberries and beans.) |

Partnerships: (See financial information.) We co-owned rental property with my parents until 1986. We currently co-own rental homes with Mr. and Mrs. T.R. Saving.

7. **Military Service: Have you had any military service? If so, give particulars, including the dates, branch of service, rank or rate, serial number and type of discharge received.**

No.

8. **Government Service: State (chronologically) your government service or public offices you have held, including the terms of service grade levels and whether such positions were elected or appointed.**

| | |
|---|---|
| March 1, 1982 - February 28, 1983<br>Assistant Director<br>Division of Consumer Protection<br>Bureau of Economics<br>Federal Trade Commission | Appointed position<br>ES Step 1 |
| February 28, 1983 - October 7, 1985<br>(Except between August - November 1984)<br>Director<br>Bureau of Economics<br>Federal Trade Commission | Appointed position<br>ES Step 5<br>ES Step 6 (8/14/84) |
| October 7, 1985 - present<br>Administrator, Office of<br>Information and Regulatory Affairs<br>Office of Management and Budget | Appointed position<br>ES Step 6 |

9. **Honors and Awards: List any scholarships, fellowships, honorary degrees, and honorary society memberships that you received and believe would be of interest to the Committee.**

I received scholarships both as an undergraduate and as a graduate student at Wellesley College and Northwestern University.

10. **Other Memberships: List all organizations to which you belong, excluding religious organizations.**

| | |
|---|---|
| Texas Women for Soviet Jewry | 9/87 - Present |
| #1 International Neighbors Club | 1984 - Present |
| Sheridan School Parents Assn. | 1982 - Present |
| American Economic Assn. | 1968 - Present |

11. **Published Writings: List the titles, publishers, and dates of books, articles, reports, or other published materials (including published speeches) you have written. Please include on this list published materials on which you are listed as the principal editor. It would be helpful to the Committee if you could provide one copy of all published material that may not be readily available. Also, to the maximum extent practicable, please supply a copy of all unpublished speeches you made during the past five years on issues involving agriculture, nutrition, forestry or commodity futures policy or related matters.**

Attached.

12. **Health: What is the present state of your health?**

Excellent.

Attachment - Biographical Information

11. Published Writings:

WENDY LEE GRAMM

Professional Publications:

"A Model of Household Supply of Labor Over the Life Cycle: The Labor Supply Decision of Married School Teachers," Econometrica, July 1971.

"The Labor Supply of Married Women: A Discriminant Analysis Approach," Review of Economics and Statistics, August 1973.

"The Married Woman's Decision to Work: A Study of Teachers in the U.S.," Mercurio, June 1974.

"The Demand for the Wife's Non-Market Time," Southern Economic Journal, July 1974.

"Household Utility Maximization and the Working Wife," American Economic Review, March 1975.

"The Demand for the Wife's Non-Market Time," Mercurio, May 1975.

"The Labor Force Decision of Married Female Teachers: A Reply," Review of Economics and Statistics, May 1976.

"Labor Substitution and the Economics of the Delivery of Dental Services," (project participant), HEW, 1977-78.

"Economic Efficiency in the Management of DCA Services," (co-author), IDA Study S-513, September 1979.

"Options for Procuring Adequate Supplies of Petroleum Products," (co-author), IDA paper P-1482, February 1980.

"Production in a Service Industry Using Customers Inputs: A Stochastic Model," (with A. S. DeVany, T. R. Saving, and C. Smithson), Review of Economics and Statistics, February 1983.

"The Impact of Input Regulation: The Case of the U.S. Dental Industry," (with A. S. DeVany, T. R. Saving, and C. Smithson), Journal of Law and Economics, October 1982.

FINANCIAL DATA AND CONFLICT OF INTEREST (PUBLIC)

1. Have you severed all connections with your immediate past private sector employers, business firms, associations, and/or organizations?

   Yes.

2. List sources, amounts and dates of all anticipated receipts from deferred income arrangements, stock options, incompleted contracts and other future benefits which you expect to derive from previous business relationships, professional services, firm memberships, former employers, clients, or customers.

   None. (Other than existing retirement accounts, listed under family assets.)

3. Do you, or does any partnership or closely held corporation in which you have an interest, own or operate a farm or ranch? (If yes, please give a brief description including location, size and type of operation.)

   No.

4. If confirmed, do you have any plans, commitments, or agreements to pursue outside employment or engage in any business or vocation, with or without compensation, during your service with the government? (If so, explain.)

   No.

5. Do you have any plans to resume employment, affiliation, or practice with your previous employers, business firms, associations, or organizations after completing government service? (If yes, give details.)

   No.

6. Has anyone made a commitment to employ you or retain your services in any capacity after you leave government service? (If yes, please specify.)

   No.

7. Identify all investments, obligations, liabilities, or other relationships which involve potential conflicts of interest in the position to which you have been nominated.

   We own Castle & Cooke, Inc., stock.

8. If confirmed, explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items.

I would recuse myself from any case in which there would be a conflict of interest.

Follow-Up Questions For Wendy Gramm
February 3, 1988

Submitted by Senator Christopher Bond

What do you view to be the role of margins in affecting leverage in the futures market?

Are there other mechanisms besides margins on stock index futures which might be used to prevent large institutional investors from having an undue impact on the underlying stock prices and thereby small investors?

**What do you view to be the role of margins in affecting leverage in the futures market?**

The word "margin" is used in both the futures and securities markets, but margin serves fundamentally different purposes in the two markets. Securities margin is a down payment toward the purchase of stock. Futures margin represents earnest money, a performance bond to assure that each party to a futures contract remains able to perform on their contractual obligations.

The role of futures margins is not to control leverage, but to protect the financial integrity of futures markets. During the October market events, futures margins performed that function remarkably well. Some $2.5 billion dollars in margins on futures were collected during the October market break -- from increased initial margins, intraday margin calls, and daily settlement of margins. Under highly volatile market conditions, variation margin calls can place cash demands on futures market participants similar to the higher initial margins in securities markets.

Using margins to control leverage in futures markets would, in effect, be using them for the new and different purpose of controlling volatility. The extent to which margins on stock index futures may affect leverage depends on the kinds of traders in the futures markets. Large institutional participants, who normally represent two-thirds of the open interest in stock index futures, generally do not obtain leveraged positions in the futures market. For example, hedgers already own the underlying assets or have offsetting positions in other markets.

**Are there other mechanisms besides margins on stock index futures which might be used to prevent large investors from having an undue impact on underlying stock prices and, therefore, small investors?**

The distinction between large and small investors may not be as clear as the question implies. Two of the major selling forces that have been cited as contributing to the October 19 stock market decline are: portfolio insurers, acting on behalf of pension funds representing hundreds of thousands of individual workers and retirees; and mutual funds, acting in response to redemptions by thousands of individual investors. It must also be remembered that large investors (institutional or otherwise) can trade large volumes directly in the cash market as well as in the futures market.

I assume that, in the context of the question, "undue impact" is synonymous with excessive volatility in stock prices. While nothing can change the ultimate level a market will reach -- that is determined by market fundamentals -- there are several mechanisms that can curb volatility and slow the rate of market movements. The most commonly cited are price limits and trading halts. Although these mechanisms have drawbacks, price limits have been used extensively in futures markets. Currently, the most actively traded stock index futures contract, and two of the other three stock index futures contracts, have price limits.

STATEMENT OF
RICHARD H. FINK
PRESIDENT, CITIZENS FOR A SOUND ECONOMY
ON THE NOMINATION OF DR. WENDY LEE GRAMM
TO CHAIR THE COMMODITY FUTURES TRADING COMMISSION

SUBMITTED TO:
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
U.S. SENATE
FEBRUARY 3, 1988

Citizens for a Sound Economy is a nonpartisan, grassroots-supported research, educational, and lobbying organization headquartered in Washington, DC, with members in every state and congressional district. On behalf of our 250,000 grassroots members, I would like to express support for the nomination of Dr. Wendy Lee Gramm to chair the Commodity Futures Trading Commission.

Even before the October stock market collapse, the CFTC was headed for some of the most challenging and controversial years in its history. The advent of computerized program trading in the stock market, coupled with the introduction of stock index futures, has generated public debate of a scope proportional to the potential benefits that these financial instruments and strategies offer the American economy. Unfortunately, complex new ideas, products, and technologies like these are often poorly understood. As a result, they evoke fearful reactions on the part of many who are not acquainted with the workings of futures markets.

The October stock collapse and subsequent December decline, which wiped out the market's enormous gains of 1987, provoked further speculation about the dangers of the new financial instruments. The Brady Commission, New York Stock Exchange, and Chicago Mercantile Exchange all have their own policy recommendations, and we will doubtlessly hear many more from diverse quarters in the coming year. Suggestions range from modifications of trading procedures by the exchanges, to increased margin requirements and other restrictions that could diminish participation in the stock and futures markets, to wholesale reallocation of regulatory responsibilities among the CFTC, Securities and Exchange Commission, and Federal Reserve.

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Sweeping regulatory changes, however, need to be based on solid evidence and analysis. The impending policy debate makes it especially important that the CFTC be chaired by an individual who has a strong economic understanding of how markets work, but is also familiar with the environment within regulatory agencies in Washington. Dr. Gramm possesses both qualifications.

As administrator for information and regulatory affairs at the Office of Management and Budget, Dr. Gramm scrutinized proposed federal regulations with the goal of ensuring that they would not create even worse problems than those they were intended to alleviate. Likewise as head of the Federal Trade Commission's Bureau of Economics, she emphasized the sensible proposition that economic analysis can reveal whether regulation will do more harm than good. As she noted in 1984, "Our approach to regulation has been in the mainstream of current economic thinking. Of course we have sought to terminate counter-productive, anticompetitive rules and regulations. But we've also tried hard to serve regulation's legitimate goal--the benefit of American consumers."

Indeed, consumers have a great deal at stake in the debate over futures regulation. The outcome of that debate will determine the extent to which America's capital markets can effectively fuel economic growth by reducing investors' risks and shifting capital to those industries where it is most urgently needed. In addition, changes in futures regulation could have a substantial impact on the risks and returns of the 49 million Americans covered by private pension plans and 47 million Americans who own stock directly or through mutual funds.

Given the enormous stakes involved, proposed changes in futures regulation must be approached carefully, critically, and with a firm grasp of how actions in the trading pits ultimately affect individual Americans. We believe that Dr. Gramm's background and abilities ensure that consumers will have a strong voice on the Commodity Futures Trading Commission.